

PRADHAN MANTRI MUDRA YOJANA - ECONOMY

NEWS: India marks **10 years of the Pradhan Mantri MUDRA Yojana (PMMY)** on 8 April **2025**.

WHAT'S IN THE NEWS?

About Pradhan Mantri MUDRA Yojana (PMMY)

- Pradhan Mantri Mudra Yojana (PMMY) is a flagship **Central Sector Scheme** aimed at **funding the Unfunded micro enterprises and small businesses**.
 - It was launched in **2015** to provide **collateral-free micro credit** to small and micro entrepreneurs across India, **especially in the non-corporate and non-farm sectors**.

MUDRA Card and MUDRA MITRA Mobile Application

About MUDRA Card

- **Purpose:** It is an innovative credit product that enables **hassle-free access to credit for working capital needs**.
- **Functionality:** Acts as a **RuPay debit card**; It is **usable at ATMs, POS machines, and online platforms**.
Overdraft Facility: Offers a **flexible credit line repayable when surplus cash is available**, reducing interest burdens.

About MUDRA MITRA App

- **Purpose:** Designed to provide **comprehensive information** about the **Micro Units Development and Refinance Agency Ltd. (MUDRA)** and its various **schemes** under PMMY.
 - **Loan Guidance:** It will **guide** a loan seeker to **approach a Banker** in availing MUDRA loan under PMMY.
 - **Resources Access:** Provides **sample application forms** and details on loan categories (Shishu, Kishore, Tarun, Tarun Plus).

- **Nodal Agency:** Department of Financial Services, **Ministry of Finance**.
- **Implementation Through:** PMMY is implemented through **MUDRA (Micro Units Development and Refinance Agency)**, which offers:
 - Refinance support to banks, NBFCs, and MFIs,

- Credit guarantee as well as development and
- capacity-building support.
- **Loan Categories Under PMMY:** PMMY loans are structured into **four** categories based on business maturity:
 - **Shishu Category: Loan Limit:** Up to ₹50,000; For startups and businesses in their **initial stages**.
 - **Kishore Category: Loan Limit:** ₹50,000 to ₹5 lakh; For businesses **in the growth phase** seeking additional capital.
 - **Tarun Category: Loan Limit:** ₹5 lakh to ₹10 lakh; For **established businesses** aiming to scale up operations.
 - **Tarun Plus Category** (Introduced in Union Budget 2024-25): **Loan Limit:** ₹10 lakh to ₹20 lakh; For businesses with a **good repayment record under the Tarun category**, looking for further expansion.
- **Eligible Borrowers:** The scheme covers a broad base of entrepreneurial entities, including: Individuals, Proprietary concerns, Partnership firms, Private and public limited companies, Other legal entities etc.
- **Credit Guarantee Support:** The **Credit Guarantee Fund for Micro Units (CGFMU)** covers defaults, encouraging financial institutions to lend more.
 - **Credit Guarantee Fund for Micro Units (CGFMU)** is the **Trust Fund** set up by Government of India with the purpose of **guaranteeing payment against default** in Micro Loans extended to eligible borrowers by Banks/ NBFCs/ MFIs/ Other Financial Intermediaries.

Need for the Pradhan Mantri MUDRA Yojana

- **Demographic Advantage:** India's demographic dividend **needed a platform** to turn young aspirations into enterprise.
- **Bridging the Credit Gap:** Millions of small entrepreneurs lacked access to formal, **collateral-free finance**.
- **Promoting Inclusive Development:** Encouraging **grassroots entrepreneurship** is key to achieving inclusive growth, especially in rural and semi-urban areas.
- **Unlocking Entrepreneurial Potential:** There existed a **strong need to tap into the latent potential of small and micro entrepreneurs** who lacked access to formal credit.
- **Catalyzing Self-Reliance:** A self-employed, self-sustained India aligned with the vision of **Atmanirbhar Bharat**.

Achievements of the Scheme

- **Loan Disbursement:** Since its launch in **April 2015**, the Pradhan Mantri Mudra Yojana (PMMY) has sanctioned over **52 crore loans worth ₹32.61 lakh crore**.
- **Impact on MSME:** There has been a massive growth in MSME Lending. MSME credit rose from **₹8.51 lakh crore in FY14** to **₹27.25 lakh crore in FY24**.
 - **Rising Share in Total Bank Credit:** The MSME sector's share grew from 15.8% in FY14 to nearly 20% in FY24.
 - MSME lending is projected to **cross ₹30 lakh crore in FY25**.
- **Women Empowerment:**
 - **Major Share of Women Beneficiaries:** Women constitute **68% of all Mudra beneficiaries**, highlighting the scheme's focus on promoting women-led enterprises.
 - **Rising Financial Support for Women:** From FY16 to FY25, the **per woman PMMY disbursement** grew at a **13% CAGR**, reaching **₹62,679**.
 - **Growth in Savings and Deposits:** **Per woman incremental deposits** rose at a **14% CAGR**, touching **₹95,269**.
- **Inclusive Growth for Weaker Sections:**
 - **Support for Weaker Sections:** 50% of Mudra accounts are held by SC, ST, and OBC entrepreneurs.
 - **Uplifting Minority Communities:** **11% of Mudra loan holders belong to minority communities**, reflecting the scheme's commitment to diversity and equity.
- **Progressive Lending: From Shishu to Tarun**
 - **Expanding Outreach:** **Over 52 crore loan accounts have been opened under Mudra Yojana in the last decade**, reflecting a surge in grassroots entrepreneurship.
 - **Shift Towards Growth-Stage Enterprises:** The share of Kishor loans (₹50,000–₹5 lakh) rose significantly from 5.9% in FY16 to 44.7% in FY25, showing a transition from micro to small enterprises.
 - **Scaling Up with Tarun Loans:** **The Tarun category (₹5 lakh–₹10 lakh) is steadily gaining traction**, highlighting Mudra's role in enabling business expansion, not just initiation.

- **Lending Lifecycle Support:** The scheme supports entrepreneurs across different stages—from starting out (Shishu) to scaling up (Kishor and Tarun).
- **Shift in Mindset:** From job seekers to **job creators**, even in rural areas and small towns.
- **Bigger Loans, Stronger Businesses**
 - **Rising Average Ticket Size:** The **average loan amount** has shown remarkable growth:
 - ₹38,000 in **FY16**
 - ₹72,000 in **FY23**
 - Projected ₹1.02 lakh in **FY25**. This reflects **growing business scale and deeper market integration**.
 - **Boost in Loan Disbursal:** Loan disbursement rose by **36% in FY23**, signaling **renewed entrepreneurial confidence** and stronger **credit appetite** among small businesses.

International Recognition of PMMY

- **The International Monetary Fund (IMF)** has consistently acknowledged the **impact of the Pradhan Mantri Mudra Yojana (PMMY)** in expanding financial access and promoting inclusive entrepreneurship in India.
 - **2017:** Recognized for enabling **women-led businesses** and complementing PMJDY by offering **collateral-free loans** to MSMEs.
 - **2019:** Praised for supporting **micro enterprises** in manufacturing, trading, and services through the **Micro Units Development and Refinance Agency**.
 - **2023:** Noted significant growth in **women-owned MSMEs**—now exceeding **2.8 million**—due to PMMY’s accessible loan structure.
 - **2024:** Reaffirmed PMMY’s role in fostering **self-employment** and **formalisation through inclusive credit access**.

Challenges and Concerns Surrounding Mudra Yojana

- **Unequal Distribution:** In **2021-22**, the **top 10 districts** received **Rs 26,000 crore**, about the **same as the bottom 318 districts**.

- Between 2015 and 2022, the **Northeast region has consistently recorded the lowest number of accounts** and sanctioned amounts under the scheme, with a noticeable declining trend over the years.
- **Absence of a Centralized Customer Database:** There is **no unified system to collect and manage customer information**, hindering efficient verification and formalization of bank accounts.
- **Inadequate Credit Access for Weaker Sections:** Credit penetration **remains poor among weaker sections and underdeveloped regions**.
- **Need for a Digitized Grievance Redressal Platform:** A robust digital platform is **required to** promptly address queries related to guarantee covers, operational procedures, and technical guidelines.
- **Lack of Employment Data:** There are **no official records** on employment generated by Mudra loans. This raises concerns over the **effectiveness of the scheme** in fostering self-employment or entrepreneurship at scale.
- **Growing NPA Concerns**
 - **Official NPA for Mudra: 4% (as of Dec 2017)**, lower than average PSB NPAs (~10%).
 - However, experts estimate that **actual NPAs under the scheme may have exceeded ₹14,350 crore within just three years**, raising concerns about Mudra loans potentially becoming a **growing liability for the banking sector over time**.
- **Bankers Raise Red Flags:** Loans under the Mudra scheme are often **pushed without proper business plans or risk assessment** due to the absence of collateral, and the **pressure to meet disbursal targets has led to violations of sound banking principles**.
- **Incidents of Fraud and Corruption:** In Barmer, Rajasthan, a PNB official **fraudulently sanctioned 26 Mudra loans worth ₹62 lakh without proper verification**.
 - The scheme's **preference for women is often misused through proxy applicants**, placing bankers in a dilemma between issuing risky loans or facing complaints.

Way Forward

- **Stronger Risk Assessment Mechanisms:** There is a need to **implement robust credit appraisal systems** to ensure loans are granted based on **viable business plans and repayment capacity**.

- **Introduce Enhanced Credit Guarantee Scheme (ECGS):** MUDRA should include the Enhanced Credit Guarantee Scheme (ECGS) to **encourage banks to lend more to small and micro enterprises**. This scheme provides a credit guarantee and reduces the risk for financial institutions.
- **Robust Monitoring & Evaluation Framework (RMEF):** There is a need to **leverage real-time tech to monitor loan disbursement, fund use, and repayment**.
 - The RMEF will also include **beneficiary impact assessments** to measure **socio-economic outcomes** and provide **insights for policy enhancements**.
- **Capacity Building of Borrowers:** Offer financial literacy and entrepreneurship training to beneficiaries, **especially first-time borrowers and women entrepreneurs**.
- **Data-Driven Employment Tracking:** Establish a framework to track employment generation linked to Mudra loans to evaluate real impact.
- **Focus on Medium-Term Scaling Support:** Facilitate **transition from Shishu to Tarun loans** with mentoring, market linkages, and additional working capital support.
- **Curb Proxy Lending Practices:** Enforce **stricter KYC norms and physical verification** to prevent proxy misuse, **especially in women-targeted disbursements**.

Conclusion

The Pradhan Mantri MUDRA Yojana (PMMY) has fundamentally **reshape the landscape of entrepreneurship in India**, driving significant progress in financial inclusion.

- To build on MUDRA Yojana's success, there is a **need to strengthen outreach, financial literacy, and monitoring systems**.
- A focused and inclusive MUDRA 2.0 **can unlock the full potential of India's micro-entrepreneurs**.

Source: <https://pib.gov.in/PressReleasePage.aspx?PRID=2119781>